

City of Detroit

CITY COUNCIL

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TO: Pamela Scales, Director
Budget Department (Capital Budget)

FROM: Irvin Corley, Jr., Fiscal Analysis Director

DATE: April 24, 2009

RE: 2009-2010 Budget Analysis

14.

Attached is our budget analysis regarding the Capital Budget for the upcoming 2009-2010 Fiscal Year.

Please be prepared to respond to the issues/questions raised in our analysis during your scheduled hearing. We would then appreciate a written response to the issues/questions at your earliest convenience subsequent to your budget hearing. Please forward a copy of your responses to the Councilmembers and the City Clerk's Office.

Please contact us if you have any questions regarding our budget analysis.

Thank you for your cooperation in this matter.

IC:ss

Attachment

cc: Councilmembers
Council Divisions
Auditor General
Joseph Harris, Finance Director
Pamela Scales, Budget Director
Renee Short, Budget Department
Arese Robinson, Mayor's Office

Capital Budget Hearing and Debt Service Fund

FY 2009-2010 Proposed General Obligation Bond Budget

FY 2009-2010 Budget Analysis by the Fiscal Analysis Division

The Mayor's 2009-2010 Recommended Budget does not include any general obligation bond sales for citywide capital improvement projects. Unlimited tax general obligation bonds are city debt. The debt service levy for the principal and interest payment on unlimited tax general obligation bonds is over and above the 20 mills for operations. The Headlee Amendment to the State constitution, adopted in 1978, states that unlimited tax general obligation bonds cannot be issued without an affirmative vote of the electorate.

We have been told by the Administration that it is felt that it would be too expensive to sell bonds in the current market, based on the city's current bond ratings. Additionally, there are no plans to sell the bonds budgeted in the 2007-2008 and 2008-2009 budgets. The Budget Department plans to retract those appropriations in DRMS, so no department mistakenly spends against them.

Comparison of Last 4 Capital Budgets and Mayor's Recommended Budget

<u>2005-2006</u> <u>Capital Funds</u>	<u>2006-2007</u> <u>Capital Funds</u>	<u>2007-2008</u> <u>Capital Funds</u>	<u>2008-2009</u> <u>Capital Funds</u>	<u>Department</u>	<u>Proposed</u> <u>2009-2010</u> <u>Capital Funds</u>
\$ -0-	\$ 5,000,000	\$ 1,000,000	\$ 3,500,000	Airport	\$ -0-
\$ 4,800,000	\$ 292,000	\$ 99,000	\$ 100,000	Detroit Institute of Arts	\$ -0-
\$ 200,000	\$ 1,000,000	\$ 200,000	\$ -0-	Charles H. Wright Museum	\$ -0-
\$ -0-	\$ -0-	\$ 200,000	\$ -0-	Civic Center	\$ -0-
\$ 10,000,000	\$ -0-	\$ -0-	\$ -0-	DOT/DTC	\$ -0-
\$ 2,000,000	\$ -0-	\$ 2,430,000	\$ -0-	Department of Public Works	\$ -0-
\$ -0-	\$ -0-	\$ 1,000,000	\$ -0-	Eastern Market	\$ -0-
\$ 109,000	\$ 1,900,000	\$ 3,500,000	\$ 5,500,000	Fire	\$ -0-
\$ -0-	\$ -0-	\$ 4,487,000	\$ 1,100,000	General Service Department	\$ -0-
\$ -0-	\$ 1,000,000	\$ 5,000,000	\$ 1,500,000	Health	\$ -0-
\$ 281,000	\$ 500,000	\$ 2,800,000	\$ 17,200,000	Historical	\$ -0-
\$ 2,600,000	\$ -0-	\$ -0-	\$ -0-	Homeland Security (Fire)	\$ -0-
\$ -0-	\$ -0-	\$ 1,000,000	\$ -0-	Library	\$ -0-
\$ 1,000,000	\$ -0-	\$ 7,500,000	\$ -0-	Planning and Development	\$ -0-
\$ 20,500,000	\$ 5,000,000	\$ 15,000,000	\$ 17,500,000	Police	\$ -0-
\$ 2,800,000	\$ 12,900,000	\$ 7,000,000	\$ 7,000,000	Public Lighting	\$ -0-
\$ 5,800,000	\$ 17,550,000	\$ 4,085,000	\$ 1,000,000	Recreation	\$ -0-
\$ 1,500,000	\$ 5,000,000	\$ 985,000	\$ -0-	Zoological Institute	\$ -0-
\$ 51,590,000	\$ 50,142,000	\$ 56,286,000	\$ 54,400,000	Total	\$ -0-

Council's questions and concerns regarding the specific departments' proposed and continuing capital improvement projects for FY 2009-2010 would be better addressed to the specific departments at their individual budget hearing. Policy questions regarding the choices of departments allotted funding and specific dollar figures would be at this hearing.

Council has the ability to make programmatic changes to the Mayor's recommended bond program for 2009-2010 and those changes would be reflected in the Council's final vote on the budget. Council can revise the mix of recommended capital projects, add to or reduce the bond program amount. Any suggested amendments that significantly increase the total dollar amount of the bond sale, however, will impact the tax rate. The impact would be seen in the following fiscal year's tax rate, depending on the timing of the sale.

Debt Service Fund - Sinking Interest and Redemption

The Debt Service Fund represents the anticipated appropriation needed to pay debt service in FY 2009-2010 for all past general obligation bond sales and the costs for the 2009-2010 recommended bond sales. This appropriation is completely offset by the budgeted revenue of property tax, industrial facilities tax and commercial facilities tax that are obligated for the principal and interest payments on outstanding unlimited tax general obligation bonds.

Below, please find a comparison of the 2007-2008 and 2008-2009 Budget for debt service and the applicable tax rate:

	<u>FY 2008-2009</u>	<u>FY 2009-2010</u>	<u>Change</u>	<u>% Change</u>
Appropriation	\$ 77,007,286	\$ 76,833,066	\$ (174,220)	(0%)
Debt Service Tax Rate	\$ 7.4779 mills	\$ 7.477 mills	\$ (.0006)	(0%)
Property Valuation	\$ 10,031,267,736	\$ 9,725,918,781	\$ (305,348,955)	(3.04%)

Questions

1. Please explain the "other surplus" revenue account and why it is increasing from \$2.8 million to \$4.8 million?
2. Has the contractor hired to determine if arbitrage occurred finished their analysis? When will Council receive a report?
3. Was the \$2.8 million budgeted for Historical in 2007-2008 issued? Should the chart on B53 in the Executive Summary be revised to show a revised remaining authorization?
4. How many of the appropriations budgeted in 2007-2008 and 2008-2009 have been spent?
5. What amount of interest earnings from the past year is available to be appropriated? Will these funds be used to correct any of the overspending?
6. In terms of the Legal Debt Margin chart on B54 in the Executive Summary, why are some limited tax bonds (besides GDRRA) not included in the debt margin calculation?

Is there some part of the Risk Management bonds that are not included? Shouldn't this number tie to the chart on B59, less the GDRRA debt?

7. Please identify what the allowances are for under the state equalized value that permit the general-purpose limit to increase.
8. Please provide to Council the detail, a list of sales, behind the \$72.4 million in unlimited tax and the \$44.3 million in limited tax debt service that is due in 2010 as shown in chart on B56.